COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY POWER COMPANY FOR AUTHORITY TO ISSUE AND SELL SECURED OR UNSECURED PROMISSORY NOTES OF ONE OR MORE NEW SERIES	) CASE NO. 95-401

O R D E R

IT IS ORDERED that Kentucky Power Company ("Kentucky Power") shall file an original and six copies of the following information with the Commission, with a copy to all parties of record, within 10 days of the date of this Order.

1. For any long-term debt to be redeemed at a premium, provide a present value analysis of the cost savings. Include all assumptions, workpapers and any other documentation to support the analysis. State at what level the redemption would fail to provide economic benefit.

2. Exhibit F, page 13 of 25, line 6, reflects First Mortgage Bonds and Junior Subordinated Debentures outstanding in the amount of $294,436,000. Exhibit F, page 2 of 25, reflects $255,435,000 in First Mortgage Bonds outstanding and page 9 of 25 reflects $40,000,000 in Junior Subordinated Debentures for a sum of $295,435,000. Reconcile these amounts.

3. Identify each major construction project that is listed on Application Exhibit E and has also been included in Kentucky

Power's application for a Certificate of Public Convenience and Necessity pending in Case No. 95-403.[1]

4. Kentucky Power has indicated it may enter into one or more interest rate hedging arrangements with a bank or other financial institution.

a. Describe the purpose of the hedging arrangement. Include a discussion of the risks and benefits related to such an arrangement.

b. Has Kentucky Power entered into such an arrangement during previous issuances of its notes? If yes, identify the issuance and describe the circumstances of the transaction. If no, explain why Kentucky Power needs to enter into a hedging arrangement at this time.

c. Provide the accounting entries Kentucky Power proposes to make to record the payment of hedging arrangement fees and the amortization of those fees. If necessary, include citations to the Federal Energy Regulatory Commission's ("FERC's") Uniform System of Accounts for Electric Utilities ("USoA").

5. Kentucky Power has proposed to treat premiums paid on notes as an issuance expense of those notes. The USoA requires that premiums be recorded in Account No. 225, Unamortized Premium on Long-Term Debt, and issuance expenses recorded in Account No. 181, Unamortized Debt Expense.

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1 Case No. 95-403, Application of Kentucky Power Company for a Certificate of Public Convenience and Necessity to Construct and Install Various Facilities to Reinforce the Transmission System in the Inez and Tri-State Areas.

a. Why is Kentucky Power proposing an accounting treatment which appears to contradict the requirements of the USoA? What justification does Kentucky Power offer in support of its proposed accounting treatment?

b. Provide the accounting entries Kentucky Power proposes to make to record the note premiums and the amortization of those premiums. Include the book accounting entries Kentucky Power will make to reflect the use of deferred tax accounting for the premium expense.

c. Explain how deferred tax accounting for the premium expense will work and why this approach has been selected by Kentucky Power.

d. Is the use of deferred tax accounting for the premium expense permitted by the FERC USoA? If yes, provide the appropriate citations to the USoA. If no, explain why the Commission should allow the deferred tax accounting approach.

Done at Frankfort, Kentucky, this 9th day of October, 1995.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Executive Director